

**SURREBUTTAL TESTIMONY OF**  
**WILLIE J. MORGAN, P.E.**  
**ON BEHALF OF**  
**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2018-318-E**  
**IN RE: APPLICATION OF DUKE ENERGY PROGRESS, LLC**  
**FOR ADJUSTMENTS IN ELECTRIC RATE SCHEDULES AND TARIFFS AND**  
**REQUEST FOR AN ACCOUNTING ORDER**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Willie J. Morgan and my business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) as the Deputy Director of the Utility Rates Department.

**Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS IN THIS PROCEEDING?**

**A.** Yes. I filed direct testimony and three (3) exhibits with the Public Service Commission of South Carolina (“Commission”) on March 4, 2019.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my surrebuttal testimony is to respond to certain portions of rebuttal testimony of Duke Energy Progress, LLC (“DEP” or “Company”) witnesses Laura Bateman, Dr. Julius A. Wright, Kelvin Henderson, and Barbara A. Coppola. My surrebuttal testimony will specifically address the following adjustments to:

1) Adjust reserve for end of life nuclear costs;

- 2) Amortize deferred cost balance related to SC Advanced Metering Infrastructure technology (“AMI”);
- 3) Normalize for storm costs;
- 4) Remove certain expenses (Legal Expenses);
- 5) Adjust for ongoing payment obligation (Litigation/Dispute with CertainTEED Gypsum NC, Inc.); and
- 6) Adjust for Materials and Supplies Inventory at Power Generation Sites.

**Q. DOES THE REBUTTAL BY DEP WITNESS HENDERSON CHANGE ORS’S POSITION ABOUT THE COMPANY’S REQUEST TO ESTABLISH A RESERVE FOR END OF LIFE NUCLEAR COSTS?**

**A.** No. The Company desires to establish a reserve fund for end of life nuclear costs not captured in its decommissioning studies using estimated costs that are not tied to a specific time for the retirement of its nuclear fleet. The Company’s request is premature because both the amount of the costs and timeframe for the nuclear fleet retirement are uncertain. To my knowledge, the Nuclear Regulatory Commission (“NRC”) has yet to deny an applicant’s request for a renewal of their license. In fact, the Company has already experienced a successful 20-year extension on its license at its Brunswick Nuclear Plant (Units 1 and 2) and Robinson Nuclear Plant (Unit 1) and other locations at one of its affiliate companies. The Company attempts to make its projections based on limited information and many assumptions, making the costs both unknown and not measurable within a degree of reasonable certainty. ORS recommends the Commission reject the Company’s request to require customers to pay for a reserve fund that is based on events

that may or may not occur in the manner being projected by DEP and costs that are estimated.

**Q. PLEASE EXPLAIN WHY ORS'S ADJUSTMENTS TO AMORTIZE THE DEFERRED COST BALANCES RELATED TO SC AMI IS APPROPRIATE.**

**A.** It is important to note that the Company provided no justification for the amortization period the Company recommends for this deferred cost balance. And, absent the approval of an accounting order establishing the regulatory asset, the Company would not be able to recover all the costs requested because a portion of this deferral balance was incurred outside of the Test Year.

It is within this Commission's discretion to set the amortization period over which a deferral account will be recovered. It is reasonable to base the amortization period upon the life of an underlying asset because that is the period which it is anticipated to benefit the customer. ORS's recommendation for amortization period for this deferred balance is consistent with the service life of the associated asset.

ORS recommended amortization period remains as follows:

Adjustment #	Adjustment	ORS Amortization Period
19	SC AMI	15 years

**Q. PLEASE EXPLAIN WHY ORS DISAGREES WITH DEP WITNESS BATEMAN'S ADJUSTMENT TO NORMALIZE STORM COSTS.**

**A.** Company witness Bateman in her rebuttal testimony does not oppose ORS' recommended method for determining the amount of the storm restoration expense adjustment in the Test Year. However, the Company's adjustment adds an inflation

adjustment to determine its ten-year average storm expense adjustment amount. The Company claims an inflation adjustment is warranted to mitigate the impact of regulatory lag. ORS recommends the Commission reject the inflation adjustment as it shifts all risk away from the Company and onto the customers. The inflation adjustment proposed by the Company is not known and measurable, speculative, and is based on generalized data for the economy.

**Q. DO YOU AGREE WITH COMPANY WITNESS COPPOLA'S CHARACTERIZATION OF YOUR POSITION CONCERNING ADJUSTMENT #38 FOR ONGOING PAYMENT OBLIGATION WITH CERTAINTEED GYPSUM NC, INC. ("CERTAINTEED")?**

**A.** No. Company witness Coppola mischaracterized ORS's position for the Company's on-going payment obligation in Adjustment #38. ORS agrees that the sale of a coal-ash byproduct to companies like CertainTEED may benefit customers. This may be true when compared to the cost for other disposal options. Company witness Coppola's rebuttal testimony did not acknowledge the Company's required on-going payment obligation is [REDACTED] arising out of litigation with CertainTEED. The vendor, CertainTEED, initiated legal action against DEP because the Company failed to provide CertainTEED with the required contract amount of at least 50,000 net dry tons of gypsum filter cake per month through 2029. A settlement was eventually reached between DEP and CertainTEED following a North Carolina Superior Court decision ruling that DEP breached its contract with CertainTEED. [REDACTED] DEP is required to make payments to CertainTEED which are recorded as the on-going payment obligation that DEP requests to recover from customers.

Company witness Coppola does not provide an explanation of the services or benefits DEP customers receive in exchange for these payments made to its vendor. It is ORS's recommendation that DEP customers should not be required to pay for an on-going payment obligation to CertainTEED that was triggered by DEP's breach of contract.

**Q. WHAT IS ORS'S POSITION RELATED TO LITIGATION EXPENSES INCURRED CONCERNING THE CERTAINTEED CONTRACT DISPUTE?**

**A.** As a result of DEP's breach of contract, DEP incurred litigation costs in the matter with CertainTEED. The Company was not successful in its defense of the litigation. As the trial court found, "DEP has failed to carry its burden of proof on its defenses." (Exhibit WJM-2 at p. 80 ¶237.) ORS recommends DEP customers be held harmless for all litigation expenses related to the legal action brought by CertainTEED. DEP was found to have failed to comply with its agreement by not supplying adequate amounts of gypsum and the North Carolina Superior Court issued an order to this effect. It was only after the adverse decision of the court that a settlement of the dispute was reached. Further discussion about litigation costs is discussed by ORS witness Steven Hamm.

**Q. PLEASE EXPLAIN ORS'S UPDATED RECOMMENDATION FOR THE MATERIALS AND SUPPLIES INVENTORY AT POWER GENERATION SITES.**

**A.** Upon further review of Company witness Henderson's rebuttal testimony, ORS updates its recommendation related to Materials and Supplies ("M&S") Inventory held for over four (4) years and designated in a "hold" status. M&S Inventory designated as "Engineering Change Hold" items may be used in the future for certain plant projects. Therefore, I update the ORS adjustment to approximately \$6.3 million (system) for the Company's M&S Inventory at its nuclear generation sites.

1 **Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON**  
2 **INFORMATION THAT BECOMES AVAILABLE?**

3 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental  
4 testimony should new information not previously provided by the Company, or other  
5 sources, become available.

6 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

7 **A.** Yes, it does.